

*5 December 1958*

MEMORANDUM FOR: Chief, Finance Division  
Chief, Fiscal Division

FROM : Acting Comptroller

SUBJECT : Accrual of Unrecorded Costs

1. CIA has committed itself to the Bureau of the Budget to prepare a cost-based budget for Fiscal Year 1962, if at all feasible. The preliminary estimated for the Fiscal Year 1962 budget will be required in the final quarter of Fiscal Year 1960. Therefore, in order to accumulate cost data from which we can build a cost-based budget in Fiscal Year 1962, we must commence accumulating, in the fiscal and confidential fund accounting records, cost data in Fiscal Year 1960, beginning 1 July 1959.

2. CIA is already on a modified cost basis. That is, all CIA's expenditures are eventually recorded as costs. However, the costs as recorded at the end of any accounting period do not reflect the cost of goods and services consumed or used through the end of the same period. For example, as of the end of any confidential fund pay period, the Agency has consumed or used the services of its employees who are paid from confidential funds, yet the costs of such services are not recorded in the confidential funds general ledger until approximately seven weeks later; the time lag in recording the cost of services of overt employees is approximately twenty days. If the books of account are to reflect costs from which a cost-based budget can be prepared, the unrecorded salary costs, and many other unrecorded costs, must be accrued.

3. In order to determine the extent that recorded costs fail to reflect the value of the goods and services used or consumed at the end of any accounting period, we must analyze each item of expense. In making this analysis, it is also necessary to determine (a) the dollar amount of the unrecorded costs and (b) the cost of the most feasible method of accruing such costs and adjusting the accrued costs to the actual costs when they are recorded.

4. Perhaps the most feasible method for approaching this problem is to analyze each sub-object of expense. It is quite probable that we will not be able, commencing with Fiscal Year 1960, to accrue the unrecorded costs for all sub-objects of expense. Therefore, our approach at this time should be to determine methods for accruing the unrecorded costs in those sub-objects of expense, which will contribute most toward our objective of preparing a cost-based budget for Fiscal Year 1962.

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5. In view of the foregoing, it is requested that each of you, in your respective areas:

a. Determine the dollar amount by which the recorded costs in each sub-object of expense falls, at the end of an accounting period, to reflect the cost of the goods and services actually used or consumed during the same accounting period.

b. Determine the most feasible procedure for accruing the unrecorded costs. In this connection, it may be more feasible, and sufficiently accurate for management purposes, to accrue most (less than all) of the unrecorded costs. Also, consider the problem of adjusting the accruals to the amount of the actual costs when they are recorded.

c. Consider and make recommendations whether accrued costs should be recorded by object or sub-object classifications within cost-center accounts.

6. Some of the larger amounts of unrecorded costs which should be studied with a view to accruing them are in the area of:

- a. Personal services.
- b. Class "A" station expenses.
- c. Class "B" station expenses.
- d. Transportation.
- e. Contractual services.
- f. Research and Development.
- g. Advances to other government agencies.
- h. Communications.

7. The Financial Management Improvement Staff is directed to hold meetings from time to time to discuss your findings and recommendations. These meetings will also be attended by representatives of the Technical Accounting Staff and the Budget Division. The first such meeting will be held in Room 1050 Alcott Hall on 10 December at 1400 hours. At this meeting you are requested to bring the results of your findings and your recommendations (see paragraph 5 above) as they apply to the sub-object classifications of object class 01- Personal Services.

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8. The findings and joint recommendations which come out of these meetings will be presented to the Comptroller's Policy Planning Group. From this Group will come policy decisions which will serve as the basis for writing and installing accrual procedures.



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